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Sales and Costs Oct.-Dec. 1961

U.S. DEPARTMENT OF AGRICULTURE
Economic Research Service

MDSC No. 21

MILK DISTRIBUTORS' SALES AND COSTS

October - December 1961

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: This report is the current issue of a series based upon information :
: obtained from distributors of fluid milk and cream products. These :
: distributors are subscribers to a cost comparison service which :
: furnished the Department with tabular data for analysis. A uniform :
: accounting system is used, and information is given on standardized :
: forms. Data reported include: Costs and quantities of raw milk :
: and other raw materials; prices and quantities of products sold; :
: and operating costs.
:
:
: The firms selected are privately owned, and chiefly single-plant :
: firms. In these characteristics they are considered to be typical. :
: Very small firms, very large firms, national chains, and producer- :
: distributors are not included.
:

SALES AND COSTS

In 1961, operating costs, for the first time in 3 years, rose substantially. Net sales value, per 100 pounds of milk and cream processed, was more than in 1960. The cost of raw milk and cream was less. Net margins were a little more.

In the October-December quarter of 1961, net sales value was about the same as a year earlier. The cost of raw milk and cream was lower but was mostly offset by higher operating costs. Net margins were higher.

Net Sales Receipts

Net sales receipts, per 100 pounds of milk and cream processed, were \$11.37 in 1961, up 12 cents from 1960 and the highest in 10 years. During the 10-year period, net sales value varied from a low of \$10.69 in 1954 to highs of \$11.32 in 1952 and \$11.37 in 1961. For the past 3 years, it increased about 1 percent each year (table 1).

The October-December, 1961 sales value was \$11.39, 2 cents less than a year earlier. The change between the third and fourth quarters has generally become smaller in recent years; in 1955-57 sales value in the fourth quarter averaged over 25 cents higher than in the third quarter; in 1961, it was 2 cents lower (fig. 1).

Table 1.--COSTS AND MARGINS FOR SELECTED DAIRY FIRMS: Per 100 pounds of milk and cream processed, for years 1952-61, and for the 5 most recent quarters

Account	Yearly average					1960					1961				
	1952	1953	1954	1955	1956	1957	1958	1959	1960	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Aug.	Sept.-Oct.	Sept.-Dec.
Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.
Net sales receipts 1/	11.32	11.12	10.69	10.95	11.22	11.15	11.05	11.16	11.25	11.37	11.41	11.35	11.37	11.39	
Cost of materials for processing and resale:															
Raw milk and cream	5.85	5.43	5.07	5.12	5.39	5.23	5.13	5.10	5.11	5.02	5.34	5.13	4.85	4.90	5.18
Other .....	.82	.86	.83	.89	.76	.77	.70	.80	.87	.95	.91	.82	1.01	1.06	.90
Total	6.67	6.29	5.90	6.01	6.15	6.00	5.83	5.90	5.98	5.97	6.25	5.95	5.86	5.96	6.08
Gross margins	4.65	4.83	4.79	4.94	5.03	5.15	5.22	5.26	5.27	5.40	5.16	5.40	5.49	5.41	5.31
Operating costs:															
Salaries, wages, and commissions 2/	2.15	2.19	2.21	2.28	2.43	2.50	2.56	2.61	2.62	2.67	2.58	2.67	2.68	2.71	2.62
Containers .....	.60	.62	.65	.70	.72	.71	.70	.69	.66	.67	.65	.66	.68	.66	.69
Operating supplies .....	.30	.32	.35	.32	.28	.28	.29	.29	.30	.30	.30	.30	.29	.31	.30
Repairs, rent, and depreciation .....	.50	.52	.57	.60	.64	.67	.68	.67	.66	.68	.65	.67	.69	.69	.68
Taxes .....	.06	.06	.06	.05	.05	.06	.06	.06	.06	.06	.06	.06	.06	.07	.06
Insurance .....	.02	.02	.03	.04	.04	.04	.04	.04	.04	.05	.05	.05	.05	.05	.05
Services .....	.16	.19	.19	.18	.17	.17	.17	.17	.17	.18	.19	.18	.16	.19	.18
Advertising .....	.15	.15	.16	.18	.19	.18	.18	.18	.18	.19	.20	.18	.19	.19	.21
General .....	.15	.13	.13	.14	.16	.15	.16	.15	.16	.16	.18	.15	.17	.16	.17
Total	4.09	4.20	4.35	4.50	4.68	4.77	4.84	4.87	4.86	4.97	4.85	4.90	5.01	5.05	4.96
Net margins 3/ .....	.56	.63	.44	.44	.35	.38	.38	.41	.43	.31	.50	.48	.36	.35	
Firms reporting	43	51	75	83	80	80	80	80	80	80	80	80	80	80	80

1/ Gross sales receipts less discounts, allowances, and returns.

2/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.

3/ Net returns to owners before income taxes.

Cost of Materials for Processing and Resale

Cost of materials for processing and resale was \$5.97 in 1961, 9 cents less than 1960. The decrease in 1961 came after 3 years of steady declines, and brought the cost to the lowest point in 10 years. The cost of \$5.02 for raw milk and cream in 1961 was about 1 percent below the previous low in 1954 and was 16 percent below the high in 1952. The cost of other materials for processing and resale increased to 95 cents largely because of increased purchases of finished products for direct resale.

For October-December 1961, total costs of materials for processing and resale were \$6.08, 12 cents more than the previous quarter but 17 cents less than a year earlier. The cost of raw milk and cream was \$5.18 -- down 16 cents from a year earlier. The cost in each quarter of 1961 was lower than the comparable quarter of 1960; also the quarter-to-quarter changes in 1961 were less than in 1960 and in most previous years.

Gross margin, in 1961, increased for the seventh consecutive year.

Operating Costs

With the exception of 1960, operating costs have increased at least moderately in every year since 1952. In 1961, operating costs of \$4.97 were the highest for the 10-year period. As compared to 1960, all operating costs except supplies, taxes, and insurance were higher; of the total 11-cent increase, 5 cents was for personnel, 2 cents for facilities, and 1 cent each for containers, purchased services, advertising, and general expenses.

Personnel, containers, and facilities account for nearly 75 percent of total operating costs. For the 10-year period of 1952-61, personnel costs increased every year; container costs increased during 1952-56 but have trended lower since; facilities costs increased during 1952-58 and have remained steady since (fig. 2).

In October-December 1961, operating costs of \$4.96 were 11 cents more than a year earlier. The rise resulted from an increase of 4 cents for personnel, 4 cents for containers, and 3 cents for facilities; changes in other operating costs were offsetting.

Net margin before income taxes, in 1961, was 43 cents -- an increase of 2 cents from 1960 and of 8 cents from the low in 1956. However, the net margin was 20 cents less than the high in 1953.

Net margin for the October-December quarter was 35 cents and, as in most other years, the lowest for the year.

GENERAL AND TOTAL PROCESSING COSTS

General Processing Costs

General processing costs -- costs for receiving, storing, separating, pasteurizing, and homogenizing -- decreased during the 1956-61 period. The most probable factors are: The volume of milk processed per plant increased by an average of 32 percent during the period; and more efficient or automatic equipment more than offset increased labor rates.

Fluid Milk Processing-Distributing Firms

**NET SALES, COST OF MATERIALS,
AND GROSS MARGIN**

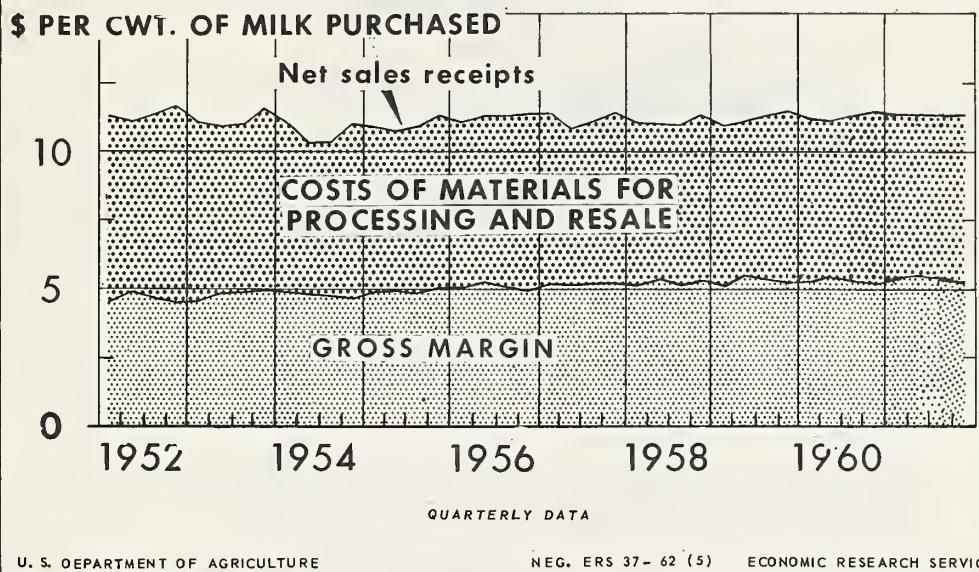


Figure 1

Fluid Milk Processing-Distributing Firms

OPERATING COSTS

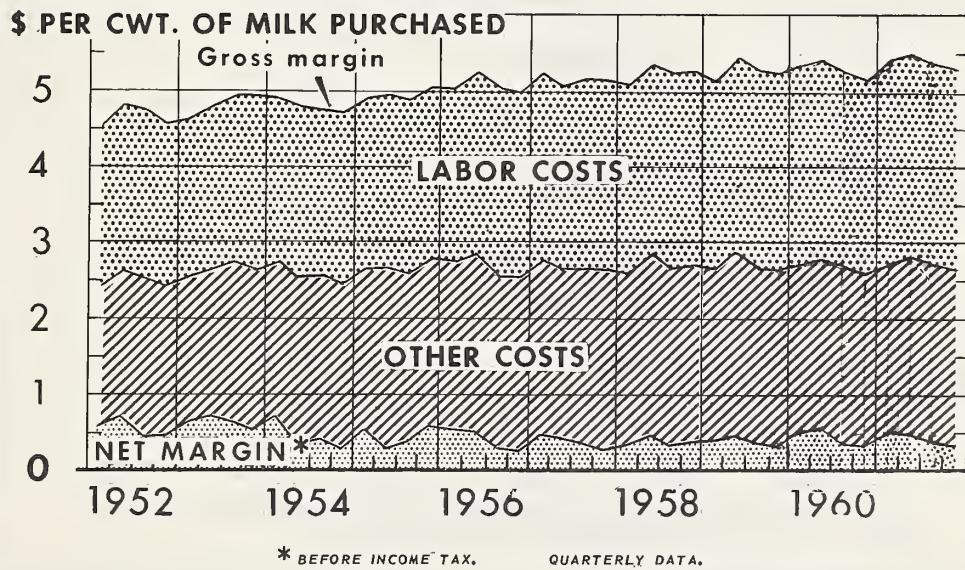
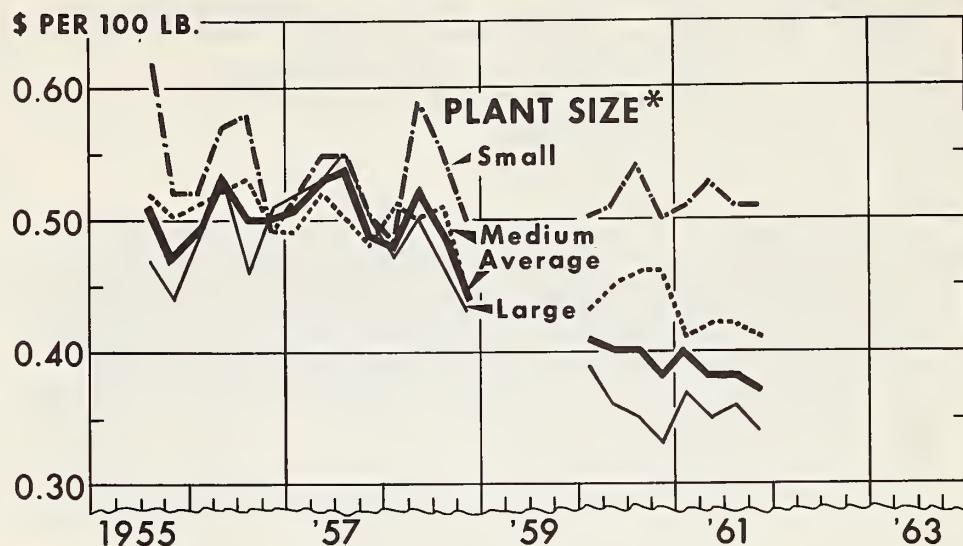


Figure 2

GENERAL COST FOR PROCESSING MILK



*PLANT SIZE BASED ON MILLIONS OF POUNDS OF MILK PROCESSED QUARTERLY. FOR 1955-1958: SMALL, LESS THAN 2.5; MEDIUM, 2.5-5.7; LARGE, OVER 5.7. FOR 1960-1961: SMALL, LESS THAN 3.0; MEDIUM, 3.0-7.0; LARGE, OVER 7.0.

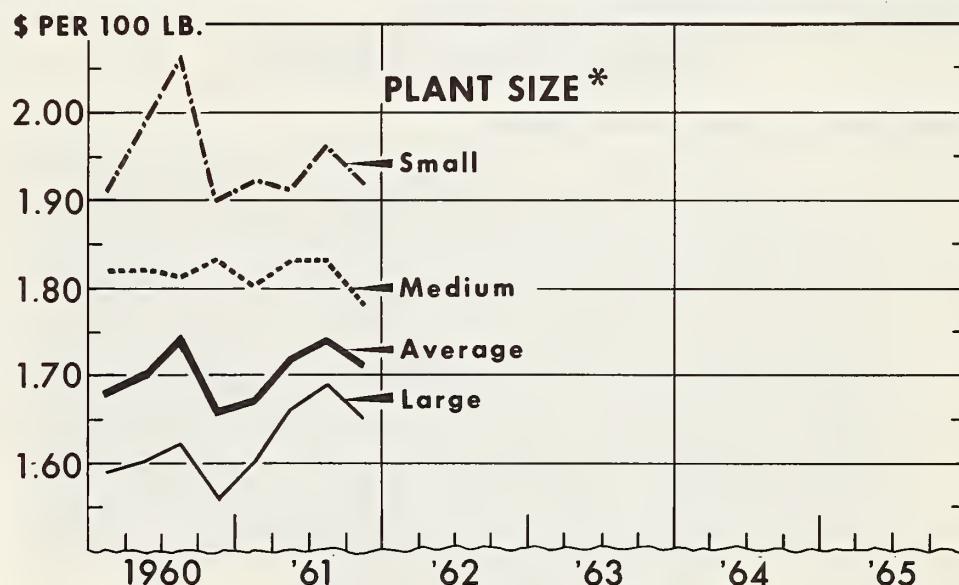
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Figure 3

TOTAL COSTS FOR PROCESSING MILK



* SIZE CATEGORIES BASED ON MILLIONS OF POUNDS OF MILK PROCESSED QUARTERLY:
SMALL, LESS THAN 3.0; MEDIUM, 3.0-7.0; LARGE, OVER 7.0.

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Figure 4

For all plants reporting, general processing costs, per 100 pounds of milk processed, decreased from about 52 cents in 1956 and 1957 to about 38 cents in 1961. The amount of decrease was directly related to the size of the plants: Large firms reduced costs from 51 cents in 1957 to 36 cents in 1961; medium sized plants, from 51 cents to 41 cents; and small plants, from 54 cents to 51 cents. It seems likely that the larger plants were better able to take advantage of the newer, more efficient machinery and equipment (fig. 3).

Total Processing Costs

Size is an important factor in total processing costs also (fig. 4). Total processing costs -- general processing plus packaging costs per hundred pounds of milk processed -- averaged, for all reporting firms, about \$1.70 for the 2 years 1960-61. For large plants, costs were about \$1.62; for medium sized plants, \$1.82; and for small plants, about \$1.98.

Total processing costs are affected by a number of factors other than size. One of these factors, types of containers used, will be analyzed in the next issue of this report.

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